

SUBCOMMITTEE NO. 4

Agenda

Michael Machado, Chair
Tom McClintock
Christine Kehoe



Wednesday, March 22, 2006
10:00 a.m.
Room 113

Consultant: Brian Annis

Select State & Consumer Services / Other

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Department Budgets Proposed for Vote Only

(1) 0510 Secretary for State and Consumer Services

The State and Consumer Services Agency oversees the departments of Consumer Affairs, Fair Employment and Housing, and General Services. The Agency also oversees the California Science Center, the Franchise Tax Board, the California Building Standards Commission, the State Personnel Board, the California Public Employees' Retirement System, the California State Teachers' Retirement System, the Victims Compensation and Government Claims Board, and the Office of the Insurance Advisor.

The Governor proposes expenditures of \$1.4 million (\$769,000 General Fund) and 8.8 positions for the Agency – an increase of \$4,000. The Administration did not submit Budget Change Proposals for the Agency.

(Staff recommends a consolidated vote for all “vote-only” departments – see page 11 of this agenda)

(2) 1100 California Science Center

The California Science Center is an educational, scientific, and technological center located in Exposition Park, a 160-acre tract in south Los Angeles. The California African American Museum, also included in the park, provides exhibitions and programs on the history, art, and culture of African Americans. In addition, the Office of the Park Manager is responsible for maintenance of the park, public safety, and parking facilities.

The Governor proposes expenditures of \$20.3 million (\$14.7 million General Fund) and 175.7 positions for the Science Center – a total decrease of \$4.5 million (and a General Fund increase of \$149,000). The year-over-year budget reduction is due to a one-time reimbursement of \$4.7 million in 2005-06 from the Office of Emergency Services and the Federal Emergency Management Agency for construction, renovation, and seismic retrofit work for the Armory building. The Armory building is on the Science Center site, and is used by the Los Angeles Unified School District and the Science Center to operate the Science Center School and the Center for Science Learning. The Administration submitted three Budget Change Proposals (BCPs) for the Science Center, which do not increase General Fund costs.

- (2a) Communications Equipment (Office of Park Manager BCP #1)** – the Administration requests a one-time augmentation of \$76,000 (special fund) to upgrade communications equipment used by public safety staff at the Park.
- (2b) Parking Structure Maintenance (Office of Park Manager BCP #2)** - the Administration requests a one-time augmentation of \$99,000 (special fund) to slurry seal and re-stripe two surface parking lots, to re-stripe the parking structure, and to purchase a power sweeper and power scrubber.
- (2c) Operating Expense to Personal Services Shift (California African American Museum BCP #1)** – the Administration requests a permanent shift of \$143,000 from Operating Expenses to Personal Services (net-zero General Fund cost) and the establishment of two new positions, a Deputy Director of Curatorial Services and an Accounting Technician. The BCP indicates the positions are necessary to address the current workload at the Museum and that the reduction in Operating Expenses will not adversely affect the facility or its operations.

1100 & 1111 Select Regulatory Boards, Bureaus, Programs, Divisions (within the Department of Consumer Affairs)

- (3) **Boards/Bureaus without Budget Change Proposals (BCPs):** The Administration did not submit BCPs for the following entities. No Board or Bureau listed below, except the Office of Privacy Protection, receives General Fund support. (Dollars are in 1,000s)

		Positions		Expenditures	
		2005-06	2006-07	2005-06	2006-07
	Boards and Commissions - Organization Code 1110				
(3a)	Behavioral Science, Board of	29.4	29.4	\$4,975	\$4,918
(3b)	Contractor's State License Board	386.8	386.8	51,438	51,850
(3c)	Guide Dogs for the Blind, State Board of	1.3	1.3	152	154
(3d)	Acupuncture Board	9.4	9.4	2,294	2,457
(3e)	California Board of Podiatric Medicine	5.1	5.1	1,153	1,224
(3f)	Psychology, Board of	12.7	12.7	3,062	3,238
(3g)	Respiratory Care Board of California	16.2	16.2	2,631	2,703
(3h)	State Board of Optometry	6.8	6.8	1,466	1,180
(3i)	Board of Registered Nursing	89.2	89.2	20,424	21,349
(3j)	Court Reporters Board of California	4.5	4.5	1,052	1,111
(3k)	Veterinary Medical Board	10.0	10.0	1,984	2,327
	Bureaus, Programs, Divisions - Organization Code 1111				
(3l)	Arbitration Certification Program	5.4	5.4	873	911
(3m)	Electronic & Appliance Repair, Bureau of	14.5	14.5	2,016	2,015
(3n)	Telephone Medical Advice Services Program	0.9	0.9	144	136
(3o)	Cemetery & Funeral Bureau	22.5	22.5	3,717	3,809
(3p)	Naturopathic Medicine, Bureau	0.9	0.9	120	116
(3q)	Office of Privacy Protection	8.3	8.3	852	820

- (4) **Boards/Bureaus with Budget Change Proposals (BCPs):** The Administration submitted BCPs for the following Boards and Bureaus that make minor adjustments to funding and staff primarily in response to workload and cost changes. None of the entities listed below receive General Fund support. No concerns have been raised to Staff concerning budget changes for these entities. A brief description of the Budget Change Proposal is included under each Board or Bureau.

		Positions		Expenditures	
		2005-06	2006-07	2005-06	2006-07
<u>Boards and Commissions - Organization Code 1110</u>					
	Architects Board, California	23.0	23.5	\$3,928	\$4,031
(4a)		Augmentation of \$27,000 and 0.5 positions for restoration of a position lost in 2003-04 due to a vacancy. The Board reports it cannot address enforcement actions in a timely fashion without this position.			
	Dental Board of California	55.1	55.5	11,639	10,703
(4b)		Augmentation of \$74,000 and 1.0 position for workload related to Chapter 539, St of 2005 (Oral Conscious Sedation). This request is similar to fiscal estimates associated with Chapter 539.			
	Geologists and Geophysicists, Board for	8.7	9.6	969	1,185
(4c)		Augmentation of \$137,000 to restore operational expenses funding. Funding was cut in 2003-04 due to fund insolvency, however, Chapter 874, St of 2003, allowed for a fee increase and the Board requests the funding to resume bi-annual exams, etc.			
(4d)		Augmentation of \$48,000 and the restoration of 1.0 clerical position lost in 2002-03 due to vacancy. The BCP indicates that if the position is not reestablished the result could be the destruction of structures/loss of life from landslides, and major multiple-fatality infrastructure collapses (e.g. bridges and skyscrapers) during earthquakes.			
	Physical Therapy Board	10.3	10.3	2,397	2,440
(4e)		Reduction of \$297,000 to reflect that most licensees now register and take exams through the Federation of State Boards of Physical Therapy, which reduces the Board's workload.			
	Physician Asst. Committee	4.4	4.4	965	1,084
(4f)		Augmentation of \$38,000 to fund the increased cost of Investigative services performed with reimbursement by the Medical Board.			

		Positions		Expenditures	
		2005-06	2006-07	2005-06	2006-07
	Speech-Language Pathology and Audiology Board	4.7	5.0	\$630	\$739
(4g)		Augmentation of \$18,000 to restore 0.3 position lost due to budget reductions in 2003-04. The BCP indicates the level of enforcement activity has increased in recent years, and the 0.3 position is needed to complete the workload in a timely manner.			
	California Board of Occupational Therapy	4.7	4.7	761	842
(4h)		Augmentation of \$25,000 (one-time) for moving costs.			
	Osteopathic Medical Board of California	4.0	4.5	1,130	1,190
(4i)		Augmentation of \$27,000 and 0.5 clerical position to support workload growth from the number of licensees increasing from 2,800 to 4,200 over the past five years.			
(4j)		Shift of \$1,400 from operating expenditures to personal services to restore per diem funding for Board members.			
	California State Board of Pharmacy	45.3	47.7	8,205	8,446
(4k)		Augmentation of \$208,000 to restore 2.5 positions lost from vacant positions eliminations. The BCP indicates this restores 2.5 of 10.0 positions lost, and that the 2.5 positions are necessary to complete workload in a timely manner.			
	Board for Professional Engineers and Land Surveyors	48.4	52.1	7,787	8,041
(4l)		Augmentation of \$46,000 to add 3.0 positions (\$126,000 of the cost is absorbed through redirection). The BCP indicates Enforcement positions fell by 1.5 in 2001-02 and the 3.0 positions are needed to address the growing backlog of enforcement cases.			
(4m)		Shift of \$46,000 from operating positions to personal services to restore one clerical position eliminated in 2002-03 due to vacancy.			
	Structural Pest Control Board	27.4	28.3	3,966	4,273
(4n)		Augmentation of \$66,000 to add one position to address unanticipated workload related to Chapter			

		Positions		Expenditures	
		2005-06	2006-07	2005-06	2006-07
		874, St of 2003, which requires new applicants to submit fingerprints and undergo a background check.			
(4o)		Augmentation of \$60,000 in operating expenditures for statutorily mandated training of county agricultural commissioners in pesticide misuse.			
	Board of Vocational Nursing and Psychiatric Technicians	36.4	40.2	6,963	6,865
(4p)		Augmentation of \$168,000 and 4.0 positions (both permanent) to address workload growth in the licensing unit. The number of Vocational Nursing applications grew by 71% from 2000-01 to 2004-05.			
	Crosscutting Board BCPs	na	na	na	na
(4q)		Augmentation of \$1.7 million (one-time) and \$178,000 ongoing for moving costs and increased rent costs.			
	Bureaus, Programs, Divisions - Organization Code 1111				
	Hearing Aid Dispensers Bureau	2.9	2.9	\$693	\$724
(4r)		Augmentation of 65,000 (one-time) to automate and track the applications it receives.			
	Bureau of Home Furnishings & Thermal Insulation	29.5	29.5	3,739	3,951
(4s)		Augmentation of \$213,000 for laboratory tests performed by private labs. The BCP indicates the current State lab doesn't have all the equipment necessary to perform the full range of product tests. The Bureau indicates it is less costly to contract out some tests than to purchase additional test equipment.			
	Crosscutting Bureau BCPs	na	na	na	na
(4t)		Reduction of \$1.3 million (ongoing) for rent savings due to the move to a new facility.			
(4u)		Augmentation of \$49,000 and 0.5 positions for the Legal Affairs Office to address workload related to the Smog Check program within the Bureau of Automotive Repair.			
(4v)		Authority for 1.0 position (to be funded within existing budgetary resources) to address workload in the Office of Examination Resources.			
(4w)		Authority to establish a Policy and Publications Development Office with 6.0 redirected staff (to be funded within existing budgetary resources). The			

		Positions		Expenditures	
		2005-06	2006-07	2005-06	2006-07
		BCP indicates this change with centralize and enhance the Department's publications efforts.			

(5) 1705 Fair Employment and Housing Commission

The Fair Employment and Housing Commission is a quasi-judicial body responsible for the promotion and enforcement of the State's civil rights laws concerning discrimination in employment, housing, public accommodations, family, medical and pregnancy disability leave, hate violence, and threats of violence. Specifically, the Commission adjudicates cases prosecuted before it by the Department of Fair Employment and Housing and promulgates regulations that interpret the Fair Employment and Housing Act.

The Governor proposes expenditures of \$1.3 million (\$1.1 million General Fund) and 7.0 positions for the Commission – an increase of \$15,000. The Administration did not submit Budget Change Proposals for the Commission.

(6) 8260 California Arts Council

The Arts Council serves the public through the development of partnerships with the public and private sectors and by providing support to the state's non-profit arts and cultural community.

The Governor proposes expenditures of \$5.1 million (\$1.2 million General Fund) and 19.3 positions for the Arts Council – an increase of \$1.8 million (no change in year-over-year General Fund support). The Administration submitted the following Budget Change Proposal:

(6a) Local Assistance Augmentation (BCP #1) – The Council requests a local assistance appropriation of \$1.8 million to resume local assistance grants to support the arts. The expenditure increase is supported by higher revenue from Art License Plate sales and renewals. The Art License Plates (art-themed car license plates) have been around since 1993; however, SB 1213 (Chapter 393, Statutes of 2004, Scott) increased the car-owners' cost of the plates leading to an annual revenue increase of about \$2.8 million. The General Fund supported local assistance grants through 2002-03, but all local assistance funding was subsequently eliminated by budget cuts.

(7) 8320 Public Employment Relations Board

The Public Employment Relations Board (PERB) is responsible for administering and enforcing California's public-sector collective bargaining laws and to assist employers and employees in resolving their labor relations disputes.

The Governor proposes expenditures of \$5.6 million (primarily General Fund) and 41.0 positions for the Board – an increase of \$31,000 (General Fund) and no change in positions. The Administration did not submit Budget Change Proposals for the Board.

(8) 8385 California Citizens' Compensation Commission

The seven-member California Citizens' Compensation Commission meets annually and is responsible for setting the salaries and benefits for State Legislators, Governor, Attorney General, Lieutenant governor, Secretary of State, Controller, Treasurer, Superintendent of Public Instruction, Insurance Commissioner, and Board of Equalization members.

The Governor proposes expenditures of \$14,000 (all General Fund) and no positions for the Commission – the same amount as 2005-06. The Commission meets annually and is staffed by the Department of Personnel Administration. The Commission budget funds travel expenses and stipends for the annual meeting – Commissioners do not receive a salary.

(9) 8500 Board of Chiropractic Examiners

The Board of Chiropractic Examiners licenses and regulates the chiropractic industry. The Board also sets educational standards for recognized chiropractic colleges, reviews complaints, and investigates possible violations of the Chiropractic Act and regulations.

The Governor proposes expenditures of \$3.0 million (no General Fund) and 14.9 positions for the Board – an increase of \$286,000 and 1.0 position. The Administration submitted the following Budget Change Proposal:

(9a) Enforcement Staff Augmentation (BCP #1) – The Board requests a permanent augmentation of \$55,000 and one position to provide clerical support related to the Board's Enforcement Program. The Board obtained authority to impose fines in 2002, and workload has exceeded expectations. Approximately 600 complaints are filed each year and about 65 of those end with disciplinary or criminal action.

(10) 8530 Board of Pilot Commissioners for the Bays of San Francisco, San Pablo, and Suisun

The Board of Pilot Commissioners for the Bays of San Francisco, San Pablo, and Suisun licenses and regulates maritime pilots who guide vessels entering or leaving those bays.

The Governor proposes expenditures of \$1.6 million (no General Fund) and 2.0 positions – an increase of \$65,000 and no change in positions. The Administration did not submit Budget Change Proposals for the Board.

(11) 8780 Milton Marks “Little Hoover” Commission

The Little Hoover Commission on California State Government Organization and Economy conducts four to five comprehensive reviews of executive branch programs, departments and agencies each year and recommends ways to improve performance by increasing efficiency and effectiveness. Additionally, the Commission is responsible for analyzing and making recommendations to the Legislature on all Governor reorganization plans.

The Governor proposes expenditures of \$983,000 (\$981,000 General Fund) and 8.8 positions for the Commission, an increase of \$47,000. The Administration submitted the following Budget Change Proposal for the Commission:

(11a) Operating Expenses and Equipment Augmentation (BCP #1) – The Commission requests a \$43,000 General Fund augmentation (\$10,000 one-time) for equipment and operational expenses. Over the past few years, the Commission’s budget has not been augmented to fully reflect cost increases and additionally has been reduced with statewide “unallocated” reductions. The BCP indicates that without the additional funding, the Commission will have to reduce staff by 0.5 position. The BCP states the reduction in staff would affect the ability of the Commission to complete its workload.

(12) 8820 Commission on the Status of Women

The Commission on the Status of Women serves to advance the causes of women; by advising the Governor and the Legislature; and educating its constituencies.

The Governor’s Budget proposes expenditures of \$438,000 (\$436,000 General Fund and \$2,000 reimbursements) and 3.9 positions – a decrease of \$21,000. The Administration did not submit Budget Change Proposals for the Commission.

(13) Control Section 3.50 Benefit Charges against Salaries and Wages

Control Section 3.50 of the budget bill specifies what benefit expenditures shall be charged against appropriations from which salaries and wages are paid. The language in this control section is identical to language approved with the 2005 Budget Act.

(14) Control Section 4.01 Employee Compensation Savings

Control Section 4.01 provides authority for the Director of Finance to adjust Budget Act appropriations for savings from the Alternative Retirement Program and any budget savings achieved through new collective bargaining agreements. Similar language was included in the 2005 Budget Act.

(15) Control Section 4.11 Establishing New Positions

Control Section 4.11 requires that new positions approved in the budget be established effective July 1, 2005, unless otherwise approved by the Department of Finance. Additionally, it requires the Controller to submit monthly reports to the Department of Finance that lists new positions approved in the budget that will be abolished pursuant to Government Code Section 12439. This control section was first added to the budget in the 2004 Budget Act. Staff understands this control section was added to reduce the practice of departments delaying the establishment of new positions and using the resulting savings for other purposes.

**(16) Control Section 4.20
Contribution to Public Employees' Contingency Reserve Fund**

Control Section 4.20 sets the employer's contribution to the Public Employees' Contingency Reserve Fund at 0.270 percent of the gross health insurance premiums paid by the employer and employee for administrative expenses. This rate is adjusted annually, as necessary, to maintain a three-month reserve in the fund. The 2005 Budget Act set the rate at 0.300 percent; however, the Administration indicates a rate of 0.270 is sufficient for 2006-07 to maintain the three-month reserve. The Control Section additionally allows the Director of Finance to adjust the rate, with a 30-day notification to the Legislature, as necessary to ensure a three-month reserve.

(17) Control Section 14.00 Department of Consumer Affairs Loans

Control Section 14.00 authorizes short-term loans (not to exceed 18 months) between special funds within the Department of Consumer Affairs. No loan can be made that would interfere with the carrying out of the object for which the special fund was created. Similar language was approved with the 2005 Budget Act. In a February 2006 letter, the Department of Consumer Affairs reported that one loan was approved in the last 12 months – a \$92,000 loan from the Bureau of Automotive Repair to the Bureau of Naturopathic Medicine, which has already been repaid.

(18) Control Section 11.11 Privacy of Information on Pay Stubs

Control Section 11.00 requires that all departments distribute pay warrants and direct deposit advices to employees in a manner that ensures that personal and confidential information is protected from unauthorized access. Identical language was approved with the 2005 Budget Act.

(19) Control Section 29.00 Personnel-Year Estimates

Control Section 29.00 requires the Department of Finance to calculate and publish a listing of total personnel-years and estimated salary savings for each department and agency. These listings must be published at the same time as the publication of: (a) Governor's Budget; (b) the May Revision; and (c) the Final Change Book. Identical language was approved by the Legislature with the 2005 Budget Act.

Staff Comment: No issues have been raised with the budgets listed above.

Staff Recommendation: Approve the budgets of the entities listed above.

Vote:

Department Budgets Proposed for Discussion

1110 / 1111 Department of Consumer Affairs

The Department of Consumer Affairs Boards and Bureaus provide exams and licensing, enforcement, complaint mediation, education for consumers, and information on privacy concerns.

The Boards are budgeted under organizational code 1110, and the total proposed budget is \$217.3 million (no General Fund) and 1,271.4 positions – an increase of \$7.1 million and 20.6 positions. The Bureaus are budgeted under organizational code 1111, and the total proposed budget is \$181.2 million (\$785,000 General Fund) and 1,367.3 positions – an increase of \$6.3 million and 33.2 positions.

The issues listed below are cross-cutting issues that involve multiple Boards or Bureaus. Issues that relate to a single Board or Bureau are discussed under the heading of the individual Board or Bureau in the pages that follow.

(see next page for issues)

Discussion / Vote Issues

- 1. iLicensing Information Technology Project (BCP #1).** The Administration requests \$8.3 million over four years for an IT project with a total cost of \$12.7 million (including redirected funds). Additionally, the Department requests 8.9 permanent positions for the project and \$1.4 million over four years for credit card processing fees. The project would replace the existing on-line Professional Licensing system with a new iLicensing system. The existing system serves seven DCA licensing entities, but cannot be expanded to include the remaining 31 programs.

Detail: The Feasibility Study Report (FSR) notes that DCA receives over 300,000 applications for professional licensure each year. Seven of 38 DCA licensing entities allow applicants to apply on-line, while the remaining 31 entities use paper applications. The on-line system would speed notification to initial applicants concerning whether their application is complete or deficient. The FSR indicates renewal applicants are anticipated to see a reduction in processing time from 4 to 6 weeks to approximately 7 days. The Department of Finance letter approving the FSR notes that this project has an oversight criticality rating of "high."

The FSR lists benefits including processing efficiencies that reduce staff hours by about 26,500 hours, which would translate into a staff reduction of about 16 positions. However, no future staff reductions are associated with this proposal because the DCA indicates staff would be redirected to other backlogged projects. In addition, the FSR notes licensee growth has increased by 12 percent in the last five years with future growth expected at a similar level.

Staff Comment: The Administration submitted a Section 11.00 and Section 26.00 letter on December 23, 2005, notifying the Legislature of their intent to begin the iLicensing project in 2005-06 with redirected resources. The Chair of the Joint Legislative Budget Committee sent a January 27, 2006 letter to the Administration indicating the project was not appropriate for those Budget Control Sections and that the funding request should be reviewed during the regular Budget Subcommittee hearing process. The DCA has since submitted a revised FSR and indicates it will submit a Finance Letter with a revised funding request.

Staff Recommendation: Keep open, because the Administration indicates it will submit a revised funding request via an April Finance Letter.

- 2. Status of Special Fund Loans (Informational Issue).** The following chart summarizes the outstanding special fund loans to the General Fund for Departments on today's agenda. All of these entities, except the Board of Chiropractic Examiners, are within the Department of Consumer Affairs.

Outstanding Special Fund Loans to the General Fund						
(\$ in thousands)						
Fund	Entity	Total Loans	Repaid in 03-04 & 04-05	Repaid in 05-06	To be repaid in 06-07	Total Loan Balances Remaining (Excludes Interest)
0069	Barber Cosmo	\$9,000		\$5,500	\$2,600	\$900
0108	Acupuncture	\$1,500				\$1,500
0239	BSIS - PSS	\$4,000				\$4,000
0264	Osteopathic Med Bd	\$2,600				\$2,600
0310	Psychology	\$5,000				\$5,000
0421	BAR - VIRF	\$114,000				\$114,000
0704	Accountancy	\$6,270				\$6,270
0706	Architects	\$1,800			\$1,800	\$0
0735	Contractors	\$19,700	\$19,700			\$0
0741	Dentistry	\$10,000	\$600	\$2,500		\$6,900
0757	Landscape Architects	\$1,225		\$1,225		\$0
0761	Registered Nursing	\$12,000		\$5,800		\$6,200
0767	Pharmacy	\$6,000		\$3,000		\$3,000
0771	Court Reporters	\$1,250				\$1,250
0773	Behavioral Sciences	\$6,000				\$6,000
0775	Structural Pest	\$2,000				\$2,000
0779	Vocational Nurse	\$2,000		\$2,000		\$0
0780	Psych Tech	\$1,000				\$1,000
3017	Occupational Therapy	\$640				\$640
0152	Chiropractic Board	\$4,000			\$4,000	\$0
	TOTAL:	\$209,985	\$20,300	\$20,025	\$8,400	\$161,260

Staff Comment: These loans do not have a fixed repayment date. Of the \$8.4 million the Administration proposes to repay in 2006-07, only about \$2.0 million appears necessary for expenditures and to maintain a prudent cash balance in the budget year. The Subcommittee may want to ask the Administration to explain their prioritization and long-term plan for loan repayment.

Staff Recommendation: Informational – no action necessary.

1110 California Board of Accountancy

The California Board of Accountancy regulates Certified Public Accountants and Public Accountants, as well as accounting partnerships and corporations.

The Governor proposes expenditures of \$10.1 million (no General Fund) and 65.5 positions for the Board – an increase of \$70,000, with no change in positions.

Discussion / Vote Issues

- 1. Practice Privilege (Staff Issue).** Last year the Legislature approved a Budget Change Proposal to add 2.0 positions for workload related to SB 1543 (Chapter 921, Statutes of 2004, Figueroa), which allows individuals with accounting licenses in other states to engage in the practice of public accountancy in California (also known as Practice Privilege) under certain conditions. Last year's BCP request was based on the assumption that 1,000 individuals would annually provide notification to the Board. The Board reports that in January through February, 2,211 people notified the Board and the Board now projects about 16,000 notifications per year.

Staff Comment: It is unclear to Staff whether the Board will be able to address the unanticipated workload with existing staff. At the time this Agenda was finalized, the Board was preparing additional information on this issue.

Staff Recommendation: Keep the Board's budget open for further discussions.

- 2. Shift of Operating Expense Funds to Personal Services.** The Board requests to shift 0.8 positions from temporary help authority to permanent position authority and to fund the cost increase of \$43,000 by shifting budgeted funds from Operating Expenses and Equipment to Personal Services.

Staff Recommendation: Keep open pending resolution of Issue #1.

1110 Board of Barbering and Cosmetology

The Board of Barbering and Cosmetology licenses barbers, cosmetologists, electrologists, estheticians, and manicurists after determining, through an examination, that applicants possess the minimum skills and qualifications necessary to provide safe and effective services to the public. Additionally, the Board conducts both routine and directed health and safety inspections of related facilities and businesses.

The Governor proposes expenditures of \$15.6 million (no General Fund) and 85.9 positions for the Board – an increase of \$817,000 and 3.8 positions.

Discussion / Vote Issues

- 1. Exams in prison (Staff Issue).** The Board has recently discontinued the practice of providing exams in prisons. In the past, the Board would send staff into prisons to provide licensing exams to prisoners who had completed a vocational program. The intent was to provide individuals with a license prior to leaving prison so they would be immediately employable upon release. With the Administration's new emphasis on rehabilitation, staff understands there are concerns about the Board's decision to discontinue prison exams.

Staff Comment. Staff has requested some additional information from the Board on the history of providing exams in prisons and asked if there are any budgetary savings associated with discontinuing prison exams. At the time this agenda was finalized, the information was still pending.

Staff Recommendation: Leave issue open for further discussion.

- 2. Licensing Positions (BCP #1).** The Board requests an augmentation of \$215,000 and 4.0 positions to address increased workload in license applications, renewals, cashiering, and other support functions. The Board indicates 4.0 positions were added for licensing activities in 2004-05; however, the number of license applications has continued to grow (applications are expected to grow in number from 47,626 in 2003-04 to 61,894 in 2006-07).

Staff Recommendation: Keep open pending resolution of Issue #1.

- 3. Computer-Based Testing (BCP #2).** The Board requests an augmentation of \$393,000 in 2005-06 and \$580,000 in 2006-07 and ongoing for a higher-than-anticipated number of applicants taking exams via computer-based testing. The Board expects the number of computer-based exams to increase by 20 percent in 2005-06 and an additional 10 percent in 2006-07.

Staff Recommendation: Keep open pending resolution of Issue #1.

1110 Medical Board

The Medical Board licenses and regulates physicians, midwives, opticians, spectacle lens dispensers, contact lens dispensers, and research psychoanalysts. The Board administers an enforcement program designed to identify and discipline potentially dangerous physicians. The Board also has oversight responsibility for the Physician Assistant Committee and the Board of Podiatric Medicine.

The Governor proposes expenditure of \$49.3 million (special fund) and 259.8 positions for the Board – an increase of \$4.8 million and 11.9 positions.

Discussion / Vote Issues

- 1. Implementation of Senate Bill 231 (BCP #1).** Senate Bill 231 (Chapter 674, Statutes of 2005, Figueroa) implemented most of the key recommendations made by the Board's Enforcement Monitor and included a fee increase to close the Board's deficit. The Board requests funding of \$3.9 million in 2006-07, \$3.5 million in 2007-08, and \$91,000 ongoing, for implementation of SB 231. Additionally, 0.5 permanent and 10.0 two-year limited-term positions are requested.

Background/Detail: The Board's sunset review in 2002 revealed numerous and significant problems with enforcement and public disclosure practices. The Legislature responded by enacting SB 1950 (Chapter 1085, Statutes of 2002, Figueroa), which among other things, required the hire of an independent Enforcement Monitor to evaluate the Board and issue recommendations. SB 231 enacted many of the statutory changes necessary to implement the recommendations of the Enforcement Monitor. SB 231 specifies, among other provisions, that physicians inform the Board of court judgments and convictions; that the Board post disciplinary actions against physicians on the Internet; and that the Board is authorized to fine physicians for failure to provide requested documents.

Staff Comment: The independent Enforcement Monitor made several recommendations which are not included in this funding request. The Monitor recommended the reestablishment of 29 abolished enforcement positions. Staff understands the Medical Board approved, at a public hearing, a BCP to restore these positions; however, the positions are not included in the Governor's Budget. Additionally, Staff understands the Board approved funding for a diversion audit and a fiscal audit (which are required by SB 231) and that funding for those purposes was deleted. Finally, staff understands the revenue estimates included in the Governor's Budget differ from those adopted by the Board.

The Subcommittee may want to ask the Medical Board if it will be able to implement all the Monitor's recommendations with the staff levels included in the Governor's Budget, and additionally whether the Board concurs with the revenue numbers included in the Governor's Budget.

Staff Recommendation: Keep issue open for further discussions. The funding request of the Administration does not appear sufficient to both meet the requirements of SB 231 and to implement the recommendations of the Monitor.

2. **Physician Diversion Program Staffing (BCP #2).** The Board requests \$181,000 in 2006-07 and \$146,000 ongoing to fund 2.0 Compliance Specialist I positions in the Physician Diversion Program. The Physician Diversion Program is a monitoring and rehabilitation program that seeks ways and means to identify and rehabilitate physicians impaired due to the abuse of drugs or by a mental or physical illness.

Staff Comment: The BCP indicates the Program lost one clerical position due to vacant position elimination and that the 2.0 positions are necessary to address workload growth and keep Compliance Specialist caseloads within the established standards.

Staff Recommendation: Keep open pending resolution of Issue #1.

3. **Evidence/Witness Augmentation (BCP #3).** The Board requests \$169,000 to address increased costs for expert reviewers and witnesses. The Board investigates approximately 2,000 complaints annually, and as part of the Enforcement Program: gathers evidence; interviews witnesses; secures expert testimony; and performs case review.

Staff Comment: Actual expenditures have exceeded funding in the Evidence/Witness line item in each of the last four years. The requested augmentation is conservative in that it provides less total funding than was expended in each of the past three years.

Staff Recommendation: Keep open pending resolution of Issue #1.

1111 State Athletic Bureau (Athletic Commission)

The State Athletic Commission will become a bureau directly under the Department of Consumer Affairs, effective July 1, 2006, pursuant to the statutory sunset date for the Commission, and the direction of Business and Professions Code Section 101.1(b). The State Athletic Commission approves, manages, and directs all professional and amateur boxing and full-contact martial arts events.

The Governor proposes expenditures of \$1.5 million (no General Fund) and 12.8 positions for the Commission/Bureau – an increase of \$423,000 and 4.3 positions.

Discussion / Vote Issues

- 1. Sunset of the Athletic Commission:** Statute includes a sunset date for the Athletic Commission of July 1, 2006. To date, no legislation has been approved to extend the sunset date of the Commission; however, statute also provides for the functions of the Commission to continue under a Bureau. This means that the seven member Commission is eliminated, but the staff positions continue under the direct management of the Administration through the Department of Consumer Affairs.

Staff Comment: Staff understands that legislation may still be enacted to extend the sunset date for the Bureau (perhaps effective January 1, 2007).

Staff Recommendation: Keep this budget open – more information may be available at the time of the May Revision hearing concerning whether the function will continue as a Commission or as a Bureau.

- 2. Staffing Augmentation:** The Commission requests an augmentation of \$290,000 and 4.5 positions for regulatory workload. Note, last year the Commission received \$46,000 related to SB 1549 (Chapter 691, Statutes of 2004, Figueroa), which added mixed martial arts to the Commission's responsibilities. With this year's augmentation, the Commission's costs more closely reflect SB 1549 fiscal assumptions.

Staff Comment: The Subcommittee may want to ask the Commission about their regulatory efforts concerning mixed martial arts, and whether the regulations provide an appropriate level of safety for participants.

Staff Recommendation: Keep open pending resolution of Issue #1.

1111 Bureau of Security and Investigative Services

The Bureau of Security and Investigative Services ensures that only those who meet the prescribed qualifications to offer services as private investigators, repossessioners, uniformed security guards, private patrol operators, alarm company operators, alarm agents, locksmiths, and firearm and baton training facilities be licensed, and enforces the regulations established by legislation for such licenses. The Bureau indicates that private security officers are part of the homeland security effort and receive four hours of homeland security training.

The Governor proposes expenditures of \$12.0 million (no General Fund) and 63.1 positions for the Bureau – an increase of \$2.0 million and 19.0 positions.

Discussion / Vote Issue

1. **Enforcement / Staffing issues.** Last year the Subcommittee received letters from the Service Employees International Union (SEIU) and from the California Association of Licensed Security Officers, Guard, and Associates (CALSAGA) requesting a staffing augmentation for the Bureau. SEIU represents labor and CALSAGA is an employer organization, and both indicated they would prefer additional enforcement and more timely enforcement instead of fee reductions. The Legislature added funding and three positions. The Governor vetoed the augmentation with the following veto message:

I am vetoing this legislative augmentation of \$238,000 and 3.0 positions for the Bureau of Security and Investigative Services. This augmentation is not based on a justified programmatic need, but rather was made because there is a growing fund reserve in the Private Security Services Fund. The growing fund balance reflects a need for the Bureau to reduce fees paid by registrants and is not a reason to increase staffing.

Staff Comment: Staff understands that the concerns expressed by labor and industry have not been resolved. The Bureau provided historical enforcement data this year that indicates number of days the Bureau takes to close a guard complaint averaged 101 days between 1997-98 and 2003-04, but is projected to average 142 days between 2004-05 and 2006-07.

The Subcommittee may want to ask the Bureau if additional staff is needed to bring average times for enforcement back down to historic levels.

Staff recommendation: Keep open for further discussions.

- 2. Implementation of SB 194 (BCP #1).** The Bureau requests funding of \$1.4 million in 2006-07 (\$1.1 million ongoing) and 20.0 positions to implement SB 194 (Chapter 655, Statutes of 2005, Maldonado), which requires proprietary private security officers, as defined, to meet specified requirements (including a criminal background check) and register with the Bureau. This request is similar to the fiscal estimates made when SB 194 was enacted (\$1.5 million in first-year costs, \$1.25 million ongoing).

Staff Recommendation: Keep this item open pending resolution to issue #1.

1111 Bureau of Private Postsecondary and Vocational Education

The Bureau of Private Postsecondary and Vocational Education is responsible for overseeing and approving private postsecondary vocational and degree-granting institutions to ensure they meet specified minimum statutory standards of quality education, fiscal requirements, and student protection.

The Governor proposes expenditures of \$10.3 million (no General Fund) and 54.4 positions for the Bureau – an increase of \$309,000 and a decrease of 3.8 positions from adjusted 2005-06 expenditures. However, 2005-06 expenditures include savings relative to the original 2005-06 budget of \$11.7 million. The savings were necessitated by insufficient funds in the Private Postsecondary and Vocational Education Administration Fund, which has an expected fund reserve of \$2,000 at the end of 2005-06.

Discussion / Vote Issues:

- 1. Budget Reduction (BCP #5):** The Bureau requests an operating expenses and equipment funding reduction of \$194,000 to reduce expenditures to align with revenues. The BCP does not include a discussion of the local assistance reduction; however, those were adjusted down in 2005-06 from \$4.3 million to \$2.8 million. The Bureau indicates it cannot justify a fee increase without further research.

Staff Comment: The Administration is requesting budget changes to reduce Bureau expenditures because “it cannot justify a fee increase without further research”. The converse question is whether a large expenditure reduction should be approved without further research. As an example, the Administration wants to shift \$243,000 in operating expenses to the Student Tuition Recovery Fund (see issue #2 below), which reduces the amount available for local assistance. The local assistance funds provide monetary reimbursement to students that incur financial losses under circumstances such as the closure of a school or an institution's failure to pay or reimburse loan proceeds under a federally granted student loan program.

Staff Recommendation: Keep this issue open for further analysis of the proposed expenditure reductions.

- 2. Fund Shifts (BCPs #1&2):** The Bureau requests to shift expenditures and positions that are currently funded from the Private Postsecondary and Vocational Education Administration Fund to the Student Tuition Recovery Fund (\$243,000 and 3.0 positions) and federal funds (\$184,000 and 2.0 positions). In the case of the former, the Bureau indicates this change better aligns the activity with the funding source. In the case of the federal funds shift, the Bureau indicates the 2.0 positions will change duties and perform work related to veterans' education. A motivating factor for both of these shifts is the limited revenue in the Private Postsecondary and Vocational Education Administration Fund.

Staff Recommendation: Keep this item open pending resolution of issue #1.

- 3. Centralization of Positions (BCPs #3&4).** The Bureau requests to transfer 2.0 information technology positions to the Department of Consumer Affairs centralized Office of Information Support (OIS) and 2.0 Enforcement Program positions to the Department's centralized Complaint Mediation Program. In both cases the Bureau requests no net change in funding because it is assumed the Bureau would still use the services of these four positions and would reimburse the Department for the cost of the positions.

Staff Recommendation: Keep this item open pending resolution of issue #1.

1111 Bureau of Automotive Repair

The Bureau of Automotive Repair administers the Automotive Repair Program and the Smog Check Program. Both Programs are designed to protect consumers and discipline unethical service dealers and technicians. The Bureau also administers the Consumer Assistance Program, which provides financial assistance to eligible consumers whose vehicles fail a biennial Smog Check inspection.

The Governor proposes expenditures of \$144.3 million (no General Fund) and 586.1 positions for the Bureau – an increase of \$2.2 million and no change in positions.

Discussion / Vote Issues

- 1. Implementation of AB 383 (BCP #1).** The Bureau requests an augmentation of \$3.8 million (High Polluter Repair or Removal Account) to implement AB 383 (Chapter 565, Statutes of 2005, Montanez), which expands consumer eligibility to receive financial assistance from the State to repair a high polluting vehicle that fails its biennial Smog Check Inspection.

Detail: The Consumer Assistance Program (CAP) includes a Repair Assistance Program and a Vehicle Retirement Program – both designed to reduce vehicle pollution. AB 383 expanded program eligibility for the Repair Assistance Program to qualified individuals whose income is up to 225 percent of the federal poverty level (from the past requirement that income fall under 185 percent of the federal poverty level). The Repair Assistance Program reduces air pollution by assisting low-income individuals in the repair of their high-polluting automobiles, by providing funding of up to \$500 per vehicle. The CAP is funded from \$4 of the \$6 annual smog abatement fee on newer vehicles. The number of vehicles repaired under the Vehicle Retirement Program is expected to increase from 15,765 to 26,538 due to AB 383 and expanded outreach efforts. The majority of this funding, \$3.5 million, would directly fund vehicle repair. The remaining \$202,000 would fund program administration, specifically temporary-help positions and contract staffing.

Staff Comment: The High Polluter Repair or Removal Account, which support the CAP, has a fund balance of \$48.5 million at the end of 2006-07, up from \$39.9 million at the end of 2005-06.

Staff Recommendation: Approve the Request.

Vote:

1700 Department of Fair Employment and Housing

The mission of the Department of Fair Employment and Housing is to protect people from unlawful discrimination in employment, housing, and public accommodations, and from the perpetration of acts of hate violence.

The Governor proposes expenditures of \$20.7 million (\$15.2 million General Fund) and 212.0 positions for the Department – an increase of \$1.6 million and 14.2 positions.

Discussion / Vote Issues:

- 1. Enforcement Division Staffing (BCP #1).** The Department requests \$1.0 million (General Fund) and 13 positions to address the enforcement workload, and respond to discrimination complaints in a timely manner. The Department indicates that it has experienced a 37.1 percent decrease in investigative staffing since 2000-01 due to vacant position eliminations and budget reductions. The number of complaints filed with DFEH has declined and the Department partially attributes this reduction to extended appointment lag times.

Staff Comment: The Department had 288 authorized positions in 2001-02, and with the augmentations requested, 2006-07 staffing would be 212 positions.

Staff Recommendation: Approve the request.

Vote:

- 2. Information Technology Improvements (BCP #2).** The Department requests \$464,000 (General Fund, \$301,000 ongoing) and 2.0 positions for consulting services, equipment, and related staffing to: convert DFEH offices from DSL to T1 data lines; to establish web-based applications for making intake appointments and download forms for “Right-to-Sue” letters; and for maintenance of the DFEH’s existing technology infrastructure. The BCP indicates this would improve service to the public and increase program efficiencies.

Staff Recommendation: Approve the request.

Vote:

3. **Sale of Publications – Trailer Bill Language (BCP #3).** The Department requests statutory changes to allow it to produce and sell educational/information documents concerning fair employment and housing laws. Statute requires that DFEH provide one free copy of documents to employers and that multiple copies be made available for sale by the Department of General Services. General Services has recently eliminated the Publications and Stores Program, so statute needs revision to allow a non-DGS entity to sell these documents. Additionally, the Department requests an increase in expenditure authority of \$32,000 for publishing costs which would be recovered when the documents are sold to the public.

Staff Recommendation: Approve the request.

Vote:

8800 Membership in Interstate Organizations

This item provides funding for membership in various organizations to which the State belongs, such as the National Conference of State Legislatures and the National Governors' Association.

The Governor proposes no funding for Interstate Organizations fees and dues. When these costs were last fully funded in 2001-02, the cost was \$1.7 million (all General Fund). Funding was cut in half in 2002-03, and fully eliminated in 2003-04. The Department of Finance indicates it is now the Administration's intent to permanently eliminate funding for this purpose. Individual departments would have the discretion to continue to pay fees within their existing budgets if that is their choice. The below chart was provided by the Department of Finance and indicates which State entities might be expected to pay the fees (if the individual departments or budget entities so desired).

Legislature	Council of State Governments
Legislature	National Conference of State Legislatures
Forestry	Western States Legislative Forestry Task Force
Fish and Game	Pacific Fisheries Legislative Task Force
Justice	State and Local Legal Center
Governor's Office	National Governors' Association
California Coastal Commission	Coastal States' Organization
Governor's Office	Western Governors' Association
Courts/Justice	National Center for State Courts
Education	Western Interstate Commission for Higher Education
Education	Interstate Compact for Education
Fish and Game	For the Sake of the Salmon

Staff Comment: While the Legislature approved the Administration's proposal to reduce funding for this item in 2002-03, and subsequently approved budgets that provide no funding for this item, it is unclear that the Legislature intended to discontinue funding permanently.

The Subcommittee may want to ask the Department of Finance which executive branch departments have decided to pay the interstate organization fees within their existing budget authority. Additionally, the Subcommittee may want to ask Finance if any entity has received a budget augmentation for the purpose of paying these fees.

Staff Recommendation: Keep the issue open for further discussion.

1880 State Personnel Board

The State Personnel Board (SPB) is responsible for California's civil service system. SPB provides a variety of recruitment, selection, classification, goal setting, training and consultation services to State departments and local agencies. The Board is composed of five members, who are appointed by the Governor, and serve 10-year terms.

The Governor proposes expenditures of \$19.2 million (\$4.0 million General Fund and \$15.1 million reimbursements) and 132.8 positions for the SPB – an increase of \$728,000 (\$147,000 General Fund) and 2.8 positions.

Vote-only Issues:

- 1. On-Line Assistance Staffing (BCP #9).** The Board requests an augmentation in reimbursement authority of \$191,000 and 2.0 new positions to provide training and assistance to State departments that access the SPB's on-line computer system for the purpose of conducting civil service examinations, processing, and maintaining civil service eligible certification lists. The BCP indicates the waiting list for training is as long as six months and the Board is often not able to respond in a timely manner to callers in need of assistance.
- 2. Administrative Services Division Staffing (BCP #10).** The Board requests an augmentation in reimbursement authority of \$102,000 and 1.0 position to assist with projects and the implementation of contracts. The BCP notes that the Division lost three positions due to vacant position eliminations over the past few years, but that workload has not declined.

Staff Recommendation: Approve the above two requests.

Vote:

Discussion / Vote Issues

- 1. Joint SPB/Department of Personal Administration Website (BCP #3).** The Board and the Department of Personal Administration both request \$100,000 General Fund (for a total of \$200,000) and \$50,000 each ongoing, to implement a consolidated Human Resources Internet Portal Service Center. The BCP indicates that since California's personnel management system is split between the two control entities, job seekers, State departments, and employees, often have trouble accessing information.

LAO Recommendation: In the *Analysis of the 2006-07 Budget Bill*, the Analyst recommends rejecting this request and notes, "The project is not well developed, and required planning documents have not been submitted." The LAO additionally notes that the SPB currently has 2.5 positions, and the Department of Personnel Administration has 0.5 position, devoted to the management of their respective websites.

State Policy for IT Projects: Under state policy, Feasibility Study Reports (FSRs) are required for most IT projects. The FSR addresses technical issues, defines risks to cost and schedules, and provides other valuable information that far exceeds the detail provided in a Budget Change Proposal (BCP). Last year, the Legislature noted an increasing number of FSRs submitted after the BCPs were submitted – sometimes the FSR was submitted just days or weeks in advance of the budget Subcommittee hearings. In some cases, FSRs were not submitted at all and the Administration requested the Legislature approve funding without the benefit of information provided in the FSR. In response, the Legislature added Control Section 11.05 to last year's budget which, among other requirements and findings, stated the following:

"For the Budget Act of 2006, it is the intent of the Legislature to not approve additional funding for new or modified information technology projects that have not been approved or delegated by the Department of Finance prior to or upon budget submission to the Legislature."

Staff Comment: The project BCP was submitted on January 10, 2006, the Finance delegation letter was dated March 2, 2006, and the internal FSR was submitted to the Legislature on March 14, 2006. If the Subcommittee desires to act consistently with the intent stated in Control Section 11.05, it will reject this BCP. This project does not appear to be of a sufficient critically to diverge from last year's stated intent. Additionally, with 3.0 staff devoted to website management, the two departments may be able to make some website improvements with existing staff.

Staff Recommendation: Reject the request.

Vote:

1920 State Teachers' Retirement System

The State Teachers' Retirement System (CalSTRS) administers retirement and health benefits for more than 735,000 active and retired educators in the public schools from kindergarten through the community college system. Unlike public employees covered under the California Public Employees' Retirement System (CalPERS), CalSTRS members do not participate in the social security system.

Proposition 162, approved by voters in 1992, amended the California Constitution to provide the CalSTRS Board with authority over the administration of the retirement system. However, the CalSTRS operations budget is still a Budget Act appropriation which the Legislature adopts. The CalSTRS operations budget is \$116.6 million and 710.7 positions, a decrease of \$5.0 million and an increase of 39.5 positions. When benefit payments are included, the total budget is approximately \$7.8 billion.

While this budget item reflects CalSTRS expenditures, budget item 6300 (which is heard in Budget Subcommittee #1 on Education) displays the State's annual teachers' retirement contributions. The State funds teachers' retirement based on two statutory formulas:

- Benefits Funding – the State's contribution is based on 2.017 percent of the teachers' salaries. The 2006-07 cost is budgeted at \$483 million General Fund.
- Supplemental Benefit Maintenance Account – The State's contribution is fixed at 2.5 percent of teachers' salaries and is intended to provide retiree purchasing power protection. The 2006-07 cost is budgeted at \$598 million General Fund.

Staff Comment: While the Governor proposed reductions to teachers' retirement funding in the 2005-06 budget, the Legislature rejected those cuts. The Governor's 2006-07 budget does not propose any cuts for teachers' retirement, and funding is budgeted at the level dictated by statutory formula.

Discussion / Vote Issues

1. Submission of Budget Information. CalSTRS, in the past, submitted Budget Change Proposals in January with other State departments. This year no BCPs were submitted. Staff requested BCP documents, which were provided, but they contain less fiscal and narrative detail than a typical BCP.

Staff Comment: CalSTRS should be prepared to explain why they have stopped submitting BCPs to the Legislature and why the detail has been reduced.

Staff Recommendation: Keep this issue open for further discussion.

- 2. School Land Bank Fund:** In the *Analysis of the 2006-07 Budget Bill*, the LAO recommends that the balance in the School Land Bank Fund be transferred from the State Lands Commission (heard in Senate Budget Subcommittee #2) to CalSTRS. Trailer bill language would be required to make this transfer. The balance of the School Land Bank Fund is expected to total \$59 million at the end of 2006-07. It is anticipated the CalSTRS would earn a better investment return than the State Lands Commission.

Background. The State Lands Commission manages lands that were given to the State by the federal government in order to help support public education. Lease revenues from these lands are deposited in the Teachers' Retirement Fund administered by CalSTRS. The State initially sold many of the lands granted by the federal government; but, in 1984, the Legislature enacted the School Land Bank Act that allowed the Commission to re-invest proceeds of land sales in the School Land Bank Fund to purchase other property and enhance lease revenues for CalSTRS. The Commission currently owns about 400,000 acres of land under this program – the majority of the property is in the desert areas of the state.

The LAO indicates that the Commission has expended almost no money from the School Land Bank Fund to purchase additional property in the past several years. Therefore, lease revenues to CalSTRS have not been enhanced by activities funded by the School Land Bank Fund.

Staff Comment: Budget Subcommittee #2 heard this issue on March 6, 2006, and kept it open for additional analysis. CalSTRS and the Administration should be prepared to discuss this issue and indicate if it would materially affect CalSTRS asset levels.

Staff Recommendations: Keep CalSTRS budget open. Direct staff to continue to follow this issue in Subcommittee #2 and bring the issue back on a future agenda as appropriate.

Control Section 31.00 Administrative Procedures for Salaries and Wages

Control Section 31.00 specifies Department of Finance oversight responsibilities concerning salaries and wages, and the establishment of positions. The control section also establishes notification requirements for the Administration to report to the Legislature when positions are administratively established and when a position is re-classified to a position with a minimum salary step exceeding \$6,334 per month.

Staff Comment: The Subcommittee heard the Department of Managed Health Care's budget on March 8, 2006, and discussed 15 positions that were administratively established for the Department in 2005-06 and that the Department anticipated would continue into 2006-07. The Department's interpretation of Control Section 31.00 is more permissive than the interpretation of the Subcommittee Staff and the LAO.

Staff Recommendation: Keep this item open and direct Staff to work with the LAO and the Administration to see if clarifying amendments are needed to this control section.

8380 Department of Personnel Administration

The Department of Personnel Administration (DPA) represents the Governor as the “employer” in all matters concerning State employer-employee relations. The Department is responsible for all issues related to salaries, benefits, position classification, and training. For rank and file employees, these matters are determined through the collective bargaining process and for excluded employees, through a meet and confer process.

The Governor proposes expenditures of \$91.2 million (\$34.2 million General Fund) and 218.3 positions for DPA – an increase of \$5.5 million and 11.4 positions.

Vote-Only Issues:

1. **Joint DPA/State Personnel Board Website (BCP #3).** The Department and the State Personnel Board (SPB) both request \$100,000 General Fund (for a total of \$200,000) and \$50,000 each ongoing, to implement a consolidated Human Resources Internet Portal Service Center. The BCP indicates that since California's personnel management system is split between the two control entities, job seekers, State departments, and employees, often have trouble accessing information.

Staff Recommendation: Conform to action taken for this issue with the State Personnel Board (see page 29)

Vote:

2. **Retiree-Paid Vision Benefit (BCP#3).** The Department requests \$82,000 in reimbursement authority and 1.0 position to implement a new enrollee-paid vision benefit for State retirees. DPA currently provides vision care benefits to approximately 177,000 active State employees. This proposal would offer the same benefit to annuitants and State costs would be fully reimbursed by enrollee fees.

Staff Recommendation: Approve the request.

Vote:

Vote-Only Issues - Continued:

- 3. Legal Services Division – Fee Increase (BCP #2).** The Department requests increased reimbursement authority of \$1.3 million for legal services that DPA performs for other State departments. The DPA instituted new legal service rates, effective July 1, 2005, that tie to the rates charged by the Attorney General's (AG's) office. DPA indicates it has historically tied the salaries of its exempt attorneys to the represented attorneys at the AG's office. Therefore, DPA costs and rates fluctuate in concert with the AG's office. This BCP is driven by the DPA's discretionary policy decision to continue to tie to the AG salaries.

Staff Recommendation: Approve the request.

Vote:

- 4. Legal Services Division – Staffing Increase (BCP #4).** The Department requests increased reimbursement authority of \$852,000 and 6.0 positions to support the level of workload within the Legal Division. The BCP indicates the Legal Division had 51 positions in 2000-01 and elimination of vacant positions and budget reductions have reduced staff to the current level of 39 positions. Additionally, the Department indicates legal workload will grow 66 percent between 2000-01 and 2006-07.

Staff Recommendation: Approve the request.

Vote:

Discussion / Vote Issues

- 1. State Classification System Assessment and Business Plan (BCP #1).** The Department requests \$1.0 million (one-time General Fund) to hire consultants to assess the current State classification system, provide recommendations for maintenance or change, and develop a comprehensive strategy and business plan for implementation of reform.

LAO Recommendation: In the *Analysis of the 2006-07 Budget Bill*, the Analyst recommends rejecting this request and notes, “If the administration wants to implement such civil service reform, it should propose a comprehensive plan to the Legislature instead of spending money to study piecemeal, incremental changes.”

Staff Comment: The BCP provides very few specifics on what type of “reforms” are anticipated. The Department does refer to past studies and recommendations from the California Performance Review (CPR) and the Little Hoover Commission, but does not indicate which recommendations the Administration embraces and which it rejects. The CPR report notes that the DPA developed a proposal in the mid-1990’s to consolidate 326 managerial classifications into 13. However, there was opposition from the California State Employee’s Association and the Davis Administration, and the proposal did not move forward. Given the past controversy with reform efforts, it is unclear that the \$1.0 million plan the Administration is requesting would be implemented.

Staff Recommendation: Reject the request – given the failure of reform efforts in the mid-1990’s, the Administration should produce a plan and seek Legislative concurrence prior to moving forward with large expenditures.

Vote:

2. **State Workforce Planning Staffing (BCP #2).** The Department requests \$140,000 (on-going General Fund) and 1.0 position to act as the State Workforce Planning Administrator to coordinate and manage the provision of workforce and succession planning consultation and training services for State departments.

Staff Comment: The BCP suggest that most of the planning workload will be borne at the individual department level, sometimes with the assistance of private resources who offer workforce and succession planning consultative and training services. The requested position would be a central resource for departments and also make sure private resources included in the Master Service Agreement are oriented to the California State Government Workforce Planning Model. The Master Service Agreement, itself, is being developed by the Department of General Services.

LAO Recommendation: In the *Analysis of the 2006-07 Budget Bill*, the Analyst recommends rejecting this request and notes, "Hiring a single individual to provide consulting and assistance services to departments would be an ineffective response to this issue.... The administration may wish to consider a more comprehensive approach to this issue."

Staff Recommendation: Reject the proposal – since the primary responsibility for workforce planning is at the department level, and some DPA and State Personnel Board resources are already available to consult on this issue, the marginal benefit of this position is unclear.

Vote:

- 3. Savings Plus Program – Administrator Costs (BCP # 1).** The Department requests a progressive funding increase of \$1.7 million in 2006-07, growing to \$3.2 million in 2010-11 (special fund), to fund third-party Administrator costs for providing recordkeeping and trustee services to the State's 457, 401(k) Defined Contribution Plans and Alternative Retirement Program (401(a)) plans. The BCP indicates that the State and Nationwide Retirement Solutions entered into a 5-year contract in January 2006. Funding for the third-party costs comes from plan participants – either from monthly administrative fees or reimbursements received from the programs' investment providers.

Staff Comment: DPA indicates that the only compensation Nationwide Retirement Solutions receives for their management services is through the payments included in this BCP. In this case, the payments are funded through participant fees. DPA notes that overall program expenses are allocated on a relatively even distribution between participant fees and revenue received from investment providers.

Staff Recommendation: Approve the request.

Vote:

- 4. Alternate Retirement Plan (Informational Issue).** The Alternate Retirement Plan (ARP) was established by SB 1105 (Chapter 214, Statutes of 2004, Committee on Budget and Fiscal Review). Under ARP, new employees to the State hired after August 10, 2004 are enrolled in the ARP during their first two years of service and are thereafter enrolled in CalPERS. The State does not make retirement contributions during the ARP period, but the employee contributes 5 percent of their salary to a 401(a) saving plan. Continuing State employees elect, on the 47th month of their employment, one of three options:
- a. Transfer all funds in their ARP account to CalPERS to buy retirement service credit for the time they were enrolled in ARP. The State then funds the portion of the CalPERS liability not paid for by that transfer.
 - b. Receive a lump-sum distribution of all funds in the ARP account, which may subject the employee to tax penalties for early withdrawal.
 - c. Transfer all funds in the ARP account to a 401(k) account with the Savings Plus Program. This options occurs automatically if the employee does not return a form stating a preference between the 47th and 49th month of employment.

Staff understands that there are over one thousand individuals who started State service under ARP that have since left State employment. Prior to the implementation of ARP, individuals who separated from the State prior to retirement vesting could withdraw their CalPERS contributions within a matter of weeks. The DPA has set up ARP in such a way that individuals who now separate from the State have to wait to the 47th month after their hire to withdraw their ARP contributions.

Staff Comment: Staff understands that DPA is working to improve the ARP to allow individuals who separate from the State (under ARP), to withdraw their contributions in a more timely manner. The Department should be prepared to discuss the program improvements they are working on and when the new process will be implemented.

Staff Recommendation: Information issue – no action is needed.

9800 Augmentation for Employee Compensation

This budget item includes funding for pay and benefit increases for those costs that exceed the baseline costs already included in individual department budgets.

Generally, this item includes employee compensation funding based upon approved Memoranda of Understanding with the State's 21 bargaining units and funding for health benefit inflation. Also included is compensation increases for excluded employees as is determined by the Department of Personnel Administration or other authorized entities.

The Governor proposes funding of \$382 million (\$203 million General Fund) for employee compensation augmentations. In the *Analysis of the 2006-07 Budget Bill*, the LAO notes that \$303 million of this amount is for contractual raises for four bargaining units with existing contracts (Unit 7 – Protective Services and Public Safety, Unit 9 – Professional Engineers, Unit 5 - Highway Patrol, and Unit 6 – Corrections) and one unit (Unit 2 – Attorneys, Administrative Law Judges, and Hearing Officers) with a MOU awaiting legislative action. The LAO additionally notes that the Administration includes \$68 million associated with the *Plata v. Schwarzenegger* lawsuit and does not include any funding for the health premium inflation.

Discussion / Vote Issues:

1. **Plata v. Schwarzenegger Lawsuit.** The Administration requests funding of \$68 million (\$57 million General Fund) to increase the pay of State-employed doctors and nurses. The *Plata* case concerns constitutional violations related to medical care in State correctional facilities. On December 1, 2005, the federal judge in the case ordered the State to immediately increase compensation for several classes of prison medical personnel.

LAO Recommendation: The LAO indicates that only \$21 million of the \$68 million requested is necessary to comply with the *Plata* ruling. The remaining \$47 million is for proposed pay raises for doctors and nurses in non-corrections departments, who are not subject to the court order and who would normally receive pay increases through negotiated bargaining unit agreements. The LAO recommends the Legislature reduce this item by \$47 million and that non-required compensation for all other medical personnel should be handled through the collective bargaining process, consistent with state law.

Staff Comment: The Administration and the LAO should be prepared to discuss their view concerning the amount of money placed in this item for the *Plata* ruling.

Staff Recommendation: Keep this issue open for further discussions.

- 2. Excluded Costs – Healthcare and Benefits:** The LAO notes in their *Analysis* that this item does not include costs related to health insurance premium increases. The Department of Finance indicates these excluded costs are \$122 million for rank and file and about \$24 million for excluded employees – for a total of \$146 million (about \$60 million of the total is General Fund). The Governor’s Budget would force departments to reduce other expenditures to absorb the \$146 million health and benefit cost increases. The \$146 million in higher costs departments would have to absorb is another unallocated reduction to baseline activities, which is in addition to the actual budget decreases that would occur with Control Section 3.45 and 4.05.

Staff Comment. The \$146 million in higher costs departments would have to absorb is another unallocated reduction to baseline activities, which is in addition to the actual budget decreases that would occur with Control Section 3.45 and 4.05. The Subcommittee may want to ask the Administration and the LAO how an unfunded \$146 million cost will affect department activities.

Staff Recommendation: Keep this issue open for further discussions.

- 3. Excluded Costs – Bargaining Units without Contracts:** The Administration does not include any funding for possible new MOUs with the 16 bargaining units that are currently working with an expired contract, or will have an expired contract on July 1, 2006. The LAO indicates that every one-percent salary increase for these expired/expiring contract units could increase State costs by about \$120 million.

Staff Comment. The costs included in this budget item are not consistent from year-to-year. While the recent practice has been to exclude funding for possible new MOUs, the *2002-03 Governor’s Budget Summary* indicates that the prior Administration did include funding for 6 units that were in continuing negotiations and did not have MOUs. The Administration indicates that it excludes any cost from possible future MOUs to preserve the confidentiality of the Administration’s negotiating strategy. Since legislation enacting new MOUs can include first-year funding for any new salary costs, funding is not strictly necessary in the 9800 budget item. However, if increased costs are anticipated and not included here, the budget reserve would tend to be exaggerated.

Staff Comment: The Subcommittee may wish to ask the Administration about the status of ongoing negotiations with State bargaining units and why the Administration chose to exclude cost related to possible new MOUs.

Staff Recommendation: Keep this issue open. Additional MOUs may be signed by the time of the May Revision. Additionally, the Administration typically submits a May Revision Finance Letter to adjust the salary of judges.

CalPERS–Related Public Employment Issues

1900 Public Employees' Retirement System

The California Public Employees' Retirement System (CalPERS) administers retirement and health benefits for more than 1.4 million active employees and retirees of State and local agencies. Benefits include: retirement, disability, and survivor's retirement benefits; Social Security for State employees; and the development, negotiation, and administration of contracts with health maintenance organizations, group hospitals, and medical insurance plans.

Proposition 162, approved by voters in 1992, amended the California Constitution to provide the CalPERS Board of Administration with authority over the administration of the retirement system. Therefore, the CalPERS budget item is presented to the Governor and Legislature for informational purposes, with the exception of the component of the Health Benefits Program, which is not covered by the Constitutional provision. On March 14, 2006, the CalPERS Finance Committee accepted, as a first reading, the proposed 2006-07 operations budget of \$261.8 million and 1,924 positions – an increase of approximately \$11.2 million and 66 positions. Note, this operations budget is about \$6.5 million more than the earlier estimate included in the Governor's Budget. When benefit expenditures are added, the total budget is approximately \$12.3 billion. The Board of Administration will vote on the CalPERS budget at the April 19, 2006 meeting.

While this budget item reflects CalPERS expenditures, the following two separate budget items reflect the State's annual retirement contributions:

- Item 9650 – Health and Dental Benefits for Annuitants – This budget item funds retiree health and dental benefits on a pay-as-you go basis. The 2006-07 cost is budgeted at \$1.0 billion General Fund.
- Budget Control Section 3.60 – This budget item sets the State's retirement contribution rates. The 2006-07 cost is budgeted at \$2.5 billion (\$1.4 billion General Fund).

Item 9650 and Control Section 3.60 are separate items in the discussion section of this agenda.

Staff Comment: CalPERS should be prepared to respond to any questions the Subcommittee has on the CalPERS Administrative Budget. Issues related to Health and Dental Benefits and the States retirement contribution are addressed on the following pages.

Staff Recommendation: Keep the CalPERS budget open, pending the CalPERS Board of Administration April 19, 2006, action on the 2006-07 Budget Proposal.

9650 Health and Dental Benefits for Annuitants

The Health and Dental Benefits for Annuitants budget item provides the State's contribution for the cost of a health benefits plan and dental care premiums, for annuitants and other employees, in accordance with requirements of Government Code. The cost of this benefit is estimated by the California Public Employees' Retirement System (CalPERS). The budgeted amount is \$1.0 billion (all General Fund – although the State recovers about one-third of these costs from special funds through pro rata charges) – an increase of \$124.2 million (14 percent) from the current year. According to the LAO's *Analysis of the 2005-06 Budget Bill*, the increase reflects growth of 4.7 percent in enrollment and growth of 9.5 percent in health care inflation.

According to CalPERS, this expenditure forecast is traditionally updated in June, after contract negotiations with health plans are completed. The budget bill is updated to reflect the new estimates through a Department of Finance technical correction, upon approval by the Legislature.

Discussion / Vote Issues:

1. **Negotiations with Health Plans (Informational Issue).** CalPERS annually enters into contracts with health care providers to provide care to annuitants. The cost split between annuitants and the State is set by Government Code 22871, which establishes a "100/90" formula. Under the formula, the average premiums of the four largest health plans sets the maximum amount the State will contribute to an annuitant's health benefit. The State contributes 90 percent of this average for the health benefits of each of the retiree's dependents.

Staff Comment: Staff understands that CalPERS has adopted a number of initiatives in recent years, such as attempting to build a coalition with other large purchasers, to cut the rapid rise in premium rates. CalPERS should be prepared to describe these efforts and what success they have achieved. Additionally, CalPERS should inform the Subcommittee when the new negotiated health care rates, and the resulting budgetary adjustments, will be available to the Legislature.

Staff Recommendation: Informational Item, no action needed.

- 2. New Government Accounting Rules: Pre-funding Retirement Healthcare.** The *2006-07 Budget: Perspectives and Issues* from the LAO, includes a discussion about the growing cost to the State of retiree health care. In addition to rising costs of health care premiums, the State faces a major budgetary change from new government account rules – specifically Governmental Accounting Standards Board Statement 45 (GASB 45). Among other provisions, GASB 45 requires government financial reports to quantify the unfunded liabilities associated with retiree health benefits. To be GASB 45 compliant, the State will have to estimate and report unfunded retiree health benefits with financial reports in 2009 that provide account records for the 2007-08 fiscal year. While most state governments, including California, have pay-as-you-go retiree healthcare, GASB 45 will likely lead to a number of states prefunding these benefits.

LAO Recommendation: The Analyst estimates that the State's unfunded retiree health liabilities are in the range of \$40 billion to \$70 billion. The liabilities for the University of California, local governments, and school districts could exceed those of the state government. The Analyst recommends approving the budget request for the State Controller's Office to perform a retiree health care actuarial analysis, and establishing a state working group to report to the Legislature on options for funding and reducing costs of retiree health benefits. Additionally, the LAO recommends that the Legislature consider beginning to partially pre-fund retiree healthcare starting in 2007-08, and then ramp up to an increased level of contributions over a period of several years.

- To begin pre-funding based on the normal cost (the amount that needs to be set aside in order to fund future retiree health benefits earned in the current year) the additional cost to the State would be in the range of \$1 billion.
- To convert to a fully pre-funded system over 30 years, the annual increase in cost to the State would be in the range of \$6 billion (until the 30-year period ends).

Staff Comment: The Subcommittee may wish to ask the LAO to summarize their report and recommendations and ask the Administration to respond.

Staff Recommendation: Keep the 9650 Budget Item open – revised cost figures may be available with the May Revision of the Governor's Budget.

Control Section 3.60 Contributions to Public Employees' Retirement Benefits

Control Section 3.60 of the budget bill specifies the contribution rates for the various retirement classes of State employees in the California Public Employees' Retirement System (CalPERS). This section also authorizes the Department of Finance to adjust any appropriation in the budget bill as required to conform to changes in these rates. The State's contributions to CalPERS in 2006-07 are currently estimated at \$2.5 billion (\$1.4 billion General Fund) – an increase of \$54 million over 2005-06. The following table provides proposed rates with historical comparisons, and is copied from the LAO's *Analysis of the 2006-07 Budget Bill*.

Figure 2 State Retirement Contribution Rates						
<i>1991-92 Through 2006-07 (As Percent of Payroll)</i>						
Fiscal Year	Misc. Tier 1	Misc. Tier 2	Industrial	Safety	Peace Officer/Firefighter	Highway Patrol
1991-92	11.8%	4.0%	13.4%	17.4%	17.4%	21.7%
1992-93	10.3	3.4	12.0	15.7	15.6	17.1
1993-94	9.9	5.0	11.8	15.5	15.2	16.9
1994-95	9.9	5.9	10.6	13.9	12.8	15.6
1995-96	12.4	8.3	9.0	14.2	14.4	14.8
1996-97	13.1	9.3	9.3	14.7	15.4	15.9
1997-98	12.7	9.8	9.0	13.8	15.3	15.5
1998-99	8.5	6.4	4.6	9.4	9.6	13.5
1999-00	1.5	—	—	7.5	—	17.3
2000-01	—	—	—	6.8	2.7	13.7
2001-02	4.2	—	0.4	12.9	9.6	16.9
2002-03	7.4	2.8	2.9	17.1	13.9	23.1
2003-04	14.8	10.3	11.1	21.9	20.3	32.7
2004-05	17.0	13.2	16.4	20.8	23.8	33.4
2005-06	15.9	15.9	17.1	19.0	23.6	26.4
2006-07 ^a	15.7	15.7	17.0	18.9	23.4	26.3

^a California Public Employees' Retirement System estimates.

Staff Comment: The above rates show significant annual fluctuations, which is primarily based on the investment market. The rates in 2005-06 and 2006-07 reflect CalPERS new rate stabilization policy, which builds gains and losses in the value of assets into the actuarial calculation of the plans' asset value over 15 years instead of the three years of the prior policy. While the rates fall slightly in 2006-07, due to investment growth, the overall State contribution rises by \$54 million because of payroll growth.

The budget reflects the budget assumption that no pension obligation bonds (POBs) will be sold in either 2005-06 or 2006-07. In 2004, the Legislature enacted a law authorizing the sale of up to \$2 billion in POBs to fund the State's CalPERS obligation. Litigation has delayed the issuance of bonds and the Administration has reduced the assumed bond proceeds – The 2005 Budget Act assumed bond proceeds of \$525 million from a 2005-06 issuance. The Administration is currently appealing a November 2005 Sacramento Superior Court decision that found the bonds unconstitutional. The State has paid its CalPERS obligation in advance of the bond sale, so the practical affect of delay in bond issuance is the State not receiving reimbursement through the bond proceeds.

CalPERS determines the rates in this section, and will update these rates with the May Revision of the Governor's Budget.

Staff Recommendation: Hold this item open pending the May Revision forecast.